

**SOUTH CAROLINA
DEPARTMENT OF MENTAL HEALTH**

COLUMBIA, SOUTH CAROLINA

STATE AUDITOR'S REPORT

JUNE 30, 2020



Independent Accountant's Report on Applying Agreed-Upon Procedures

June 16, 2021

Dr. Kenneth M. Rogers, State Director
and
Members of the Commission
South Carolina Department of Mental Health
Columbia, South Carolina

We have performed the procedures described in Attachment 1 on the systems, processes and behaviors related to financial activity of the South Carolina Department of Mental Health (the Department) for the fiscal year ended June 30, 2020. The Department's management is responsible for the systems, processes and behaviors related to financial activity.

The Department's management has agreed to and acknowledged that the procedures performed are appropriate to meet the intended purpose of understanding the systems, processes and behaviors related to financial activity. This report may not be suitable for any other purpose. The procedures performed may not address all the items of interest to a user of this report and may not meet the needs of all users of this report and, as such, users are responsible for determining whether the procedures performed are appropriate for their purposes.

We were engaged by the Department to perform this agreed-upon procedures engagement and conducted our engagement in accordance with attestation standards established by the American Institute of Certified Public Accountants. We were not engaged to and did not conduct an examination or review engagement, the objective of which would be the expression of an opinion or conclusion, respectively, on the systems, processes and behaviors related to financial activity of the Department for the year ended June 30, 2020. Accordingly, we do not express such an opinion or conclusion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

The concept of materiality does not apply to findings to be reported in an agreed-upon procedures engagement. Therefore, all findings from the application of the agreed-upon procedures must be reported unless the definition of materiality is agreed to by the Department's management. Management of the Department has agreed that the following deficiencies will not be included in the State Auditor's Report on Applying Agreed-Upon Procedures:

- Errors of less than \$1,000 related to cash receipts and non-payroll cash disbursements transactions.
- Errors of less than \$1,000 related to reporting packages.

We are required to be independent of the Department and to meet other ethical responsibilities, in accordance with the relevant ethical requirements related to our agreed-upon procedures engagement.

This report is intended solely for the information and use of the governing body and management of the South Carolina Department of Mental Health, and is not intended to be, and should not be, used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

George L. Kennedy, III, CPA
State Auditor

**South Carolina Office of the State Auditor
Agreed-Upon Procedures - South Carolina Department of Mental Health (J12)**

Cash Receipts/Revenues

1. Haphazardly select ten cash receipts transactions and inspect supporting documentation to determine:
 - Supporting documentation for transaction agrees with the general ledger as to amount, date, payor, and account classification.
 - Revenues/receipts were deposited in a timely manner, in accordance with Proviso 117.1 of the fiscal year 2020 Appropriation Act.
 - Receipts are recorded in the proper fiscal year.

Finding

The revenue of one \$10,000 receipt transaction was recognized in an incorrect fiscal year.

Management's Response

The revenue in question is contractual revenue and was not reported as a receivable. Similar revenues will be evaluated more closely by reviewers to help ensure that all revenues are recognized in the proper fiscal year.

Cash Disbursements/Non-Payroll Expenditures

2. Haphazardly select ten non-payroll disbursements and inspect supporting documentation to determine:
 - The transaction is properly completed as required by Department procedures and invoice(s) agree(s) with general ledger as to vendor, amount, and date.
 - All supporting documents and approvals required by Department procedures are present and agree with the invoice.
 - The transaction is a true expenditure of the Department.
 - The transaction is properly classified in the general ledger.
 - Disbursement is recorded in the proper fiscal year.
 - Clerical accuracy.

For federally funded cash disbursements/non-payroll expenditures selected, inspect supporting documentation to determine:

- Charges are in accordance with the requirements of the program, incurred during the approved grant period, and applied uniformly to both federally assisted and other activities of the recipient.
3. Haphazardly select ten purchasing card transactions from the Office of the Comptroller General's (CG's) listing of purchasing card transactions for fiscal year 2020 and inspect supporting documentation to determine:
 - The cardholder is an authorized user and individual credit limits have been properly approved in accordance with Department policies.
 - The purchase is authorized based on the cardholder's job title/position.

Cash Disbursements/Non-Payroll Expenditures (Continued)

- The monthly purchase summary was submitted along with applicable receipts and signed by both the supervisor and cardholder.
- The purchase did not exceed the single transaction limit or the individual credit limit and there was no indication of transaction splitting.

Finding

For one purchasing card transaction selected for inspection, the cardholder split a purchase into two transactions in order to circumvent the cardholder's single transaction limit. The Department identified the transaction splitting and took disciplinary action, but the action taken was not consistent with Department policy.

Management's Response

Department controls identified the error and disciplinary action was taken to ensure that the transaction splitting does not happen again. The Department will modify the purchasing card policy to ensure our disciplinary actions are consistent with the policy.

Payroll

4. Haphazardly select five employees who terminated employment during the fiscal year to determine if they were removed from the payroll in accordance with the Department's policies and procedures and that their last pay check, including any leave payout, was properly calculated in accordance with applicable State law.
5. Haphazardly select five employees hired during the fiscal year to determine if they were added to the payroll in accordance with the Department's policies and procedures and that their first paycheck was properly calculated in accordance with applicable State law.
6. Haphazardly select five bonus payments to determine:

For payments authorized by proviso 112.1:

- The employee does not make more than \$70,000 annually.
- The employee has been in continuous state service for at least six months prior to July 1, 2019.

For all other bonus payments:

- The employee does not make more than \$100,000 annually.
- The bonuses received during the year did not exceed \$3,000.
- The payment amount agreed to supporting documentation and was given in accordance with Department policy.
- The bonus pay was approved by the appropriate supervisor.

Finding

Similar to the finding reported in the prior year, an underpayment of approximately \$300 was identified in the final paycheck of one terminated employee.

Payroll (Continued)

Management's Response

The payroll finding was an undetected SCEIS error that double counted a deduction in the payment calculation. At that time, we were not aware of a SCEIS miscalculation problem until we detected the error on someone else the following year and submitted a help ticket to SCEIS. We are told that the SCEIS issue that caused this error has been corrected. As evidenced in the more recent transaction, Department controls are now in place to detect and correct system errors.

Journal Entries and Transfers

7. Haphazardly select three journal entries and two transfers and inspect supporting documentation to determine:
 - Postings in the general ledger agree to supporting documentation.
 - Transaction is properly approved.
 - The purpose of the transaction.

We found no exceptions as a result of the procedures.

Reporting Packages

8. Obtain copies of fiscal year end reporting packages submitted to the CG. Inspect the Master Reporting Package Checklist to determine the appropriate reporting packages were submitted by the due date established by the CG's Reporting Policies and Procedures Manual.
9. In addition to the procedure above, perform the following:
 - Other Receivables Reporting Package

Agree reported amounts to the South Carolina Enterprise Information System (SCEIS) general ledger, the SCEIS *Yearend Reporting - Accounts Receivable Current with Customer* report and Department prepared records. Haphazardly select ten receivables to determine if the amounts were properly classified and calculated.
 - Inventory Reporting Package

Determine that the package was completed in accordance with the CG's instructions and amounts were accurately reported based on inspection of the SCEIS *Yearend Reporting - Inventory* report and Department prepared records.
 - Accounts Payable Reporting Package

Agree amounts to the SCEIS general ledger, SCEIS *Yearend Reporting - Prior Year Payables with Vendor* report and Department prepared records. Haphazardly select five payables to determine if reported amounts were properly classified, calculated, and reported.
 - Subsequent Events Questionnaire

Compare responses and any required supplemental information to the SCEIS general ledger and Department prepared records. In addition, haphazardly select five payables from the Subsequent Events Accounts Payable Worksheet and determine if the amounts were properly classified, calculated, reported, and excluded from the original Accounts Payable Reporting Package submission.

Reporting Packages (Continued)

Findings

Inventory Reporting Package – The Department did not notify the Office of the State Auditor of its inventory count dates as required by the Inventory Reporting Package instructions. Additionally, the accuracy of the inventory amount reported for one Department location could not be determined due to a lack of supporting documentation.

Subsequent Events Questionnaire – One disbursement for goods received after year end was incorrectly reported as a payable on the Subsequent Events Accounts Payable Worksheet.

Management's Response

Inventory Reporting Package – The Department has made note of the need to report Inventory dates to the Office of the State Auditor. Finance has requested that the pharmacies run and submit full reports on June 30th.

Subsequent Events Questionnaire – The Department acknowledges that the transaction in question was labeled incorrectly as a prior year payable due to the dates listed on the invoice. We will ensure that reviewers verify dates on all payable transactions.

Composite Reservoir Accounts

10. Obtain a listing of Department composite reservoir accounts and inquire of Department management that the listing is complete.
11. Obtain fiscal year monthly reconciliations for each composite reservoir account. For five haphazardly selected reconciliations, perform the following procedures:
 - Recalculate reconciliations and determine that they were timely performed, reviewed, and properly documented in accordance with Department procedures.
 - Agree applicable amounts from reconciliations to the general ledger.
 - Agree applicable amounts from reconciliations to the State Treasurer's Office monthly reports.
 - Determine if reconciling differences were explained and resolved.
 - Determine if adjusting entries were made in the accounting records.
12. Haphazardly select and inspect five composite reservoir account receipts to determine that they were properly described and classified in the accounting records in compliance with the Department's policies and procedures and that they were recorded in the proper fiscal year.
13. Haphazardly select and inspect five composite reservoir account disbursements to determine that they were properly classified in the accounting records, were true disbursements of the Department, and that goods and/or services were procured in accordance with Department procedures.

Findings

Two composite reservoir account receipts for donations made to the Department were miscoded as unrestricted instead of restricted.

Composite Reservoir Accounts (Continued)

Additionally, one composite reservoir account disbursement was recorded in the wrong fiscal year. The disbursement was a cash withdrawal made in May 2020 for the purchase of allowable supplies, but the supplies were not purchased until December 2020 and the purchase amount was less than the cash withdrawal amount.

Management's Response

The Department agrees with both findings. These findings have identified a need for training and policy and procedure updates. The Department will work with the Mental Health Centers that have these accounts to strengthen their knowledge and controls around these accounts. With regards to the difference between the purchase amount and withdraw amount, the unspent funds have been accounted for.

Assets and Personal Property

14. Haphazardly select three capital asset acquisitions and inspect supporting documentation to determine that each asset was properly capitalized and posted to the general ledger in accordance with the CG's Reporting Policies and Procedures Manual.
15. Haphazardly select three capital asset retirements and inspect supporting documentation to determine that each asset was approved for removal and removed from the general ledger in accordance with the CG's Reporting Policies and Procedures Manual.
16. Through inquiry of management and inspection of supporting documentation, determine that an inventory of Department property, excluding expendables, was completed during the fiscal year as required by South Carolina Code of Laws Section 10-1-140.

Findings

The Department did not apply the applicable tax to a capital asset acquisition.

In addition, due to untimely removal from the accounting system, one capital asset retirement was recorded in the incorrect fiscal year.

Management's Response

Department staff will ensure sales tax is paid and applied to the book value of capitalized equipment.

Retirement – The Turn in Document (TID) in question was returned to Finance with the inventory report that was due, but it crossed fiscal years. The Department will notify staff that TIDs are to be sent in to Finance as soon as they are approved.

Department-Specific Provisos

17. Determine compliance with Department-specific state provisos (35.1 – Patient Fee Account, 35.3 – Alzheimer's Funding, and 35.4 – Crisis Intervention Training) by inquiring with management and observing supporting documentation, where applicable.

We found no exceptions as a result of the procedures.

Status of Prior Findings

18. Through inquiry of management and inspection of supporting documentation, determine if the Department has taken appropriate corrective action on the findings reported during the engagement for the prior fiscal year.

We determined that the Department has taken adequate corrective action on all prior year findings except for the finding identified in the Payroll section.